

AGENDA: December 12, 2000

6.1

CATEGORY: New Business

DEPT.: Community Development

TITLE: Charleston East Hotel Site

RECOMMENDATION

1. Authorize staff to proceed with the following for the Charleston East site:
 - a. Developing the Request for Qualifications (RFQ) and Request for Proposal (RFP) and return to the City Council prior to February 28, 2001 with the RFQ.
 - b. Development of a separate work plan and schedule for the cultural/educational use of the site for review with the City Council prior to April 30, 2001.
2. Authorize the City Manager to execute a contract with Sedway Group to develop the RFQ/RFP for the hotel use and the work plan/schedule for the cultural/educational use.
3. Appropriate \$225,000 from the Shoreline Community Fund for the first phase of the project.

FISCAL IMPACT

Charleston East is located in the North Bayshore Area. Funding to hire outside consultants would be available from the Shoreline Community Fund. Staff is requesting the funding for the project be done in two phases. For the first phase of the project, \$225,000 is requested at this time. These funds will be used to hire economic and marketing consultants to assist with the preparation, solicitation and evaluation of the RFQ/RFP for the hotel conference center portion of the site and to develop a work plan and schedule to establish priorities and marketing plan for the cultural/educational portion of the site. Funds are also being requested during this first phase to hire real estate consultants to establish the fair-market value for the property and legal counsel to begin developing required legal documents.

Once the short list of developers has been established for the RFP, a second phase of funding would be requested and used for the retention of economic consultants and legal counsel to assist with the negotiations and development of the business terms and final legal documents (disposition and development agreements and ground lease).

Based on the prototype hotel project discussed in the Sedway report, it is estimated that once the hotel/conference center portion of the site is completed, it will generate approximately \$2.5 million to \$2.7 million annually to the General Fund from lease and transit occupancy tax payments. Additional property tax revenues will be generated to the benefit of the Shoreline Community Fund.

BACKGROUND AND ANALYSIS

On November 14, 2000, a study session was held to discuss the City-owned Charleston East site regarding the marketing of the property, the RFQ/RFP process, key business terms, process for defining the cultural/educational use, budget and timing (study session report and minutes attached—Attachment A). There was discussion with the City Council of the staff recommendation that the hotel/conference center and cultural/educational uses not be linked and that the City proceed with the solicitation of proposals for the hotel/conference center as quickly as possible. A work plan for the cultural/educational uses for a portion of the site would also be developed. The purpose of this memo is to formalize the actions discussed at the study session.

MARKETING

One of the first issues identified was whether the hotel/conference center and cultural/educational uses should be marketed simultaneously or separately. Staff and the consultants have concluded that the hotel/conference center site should be marketed first. At the study session, several advantages to this approach were discussed, including maximizing the number of responses from potential developers; taking advantage of the current strong real estate market and the current demand for a hotel/conference center; reducing the financial risks for both uses and increasing the likelihood of getting both the best hotel project and the best cultural/educational use. This approach gives the City Council time to develop goals and priorities for the cultural/educational use. It also has the added advantage of allowing the City Council to identify and direct the type of cultural/educational use the community would prefer rather than evaluating this use as part of a larger hotel/conference center proposal.

Although the sites would be marketed separately, under the Precise Plan, it requires that both uses be integrated. As the hotel/conference center proceeds, the selected developer will be required to master plan the site and show how the two uses would be physically integrated. This process has worked very successfully on other large projects in that they have been developed in stages (The Crossings) and by more than one developer (Whisman Station).

Another issue discussed at the study session was the development bonus allowed in the Precise Plan for up to an additional 50,000 square feet of space for exceptional hotel projects.

The Precise Plan identifies the criteria to evaluate whether or not a project qualifies, including: maximizing meeting/conference/event space, maximizing publicly accessible restaurant and retail space and/or open space and development of cultural/educational facilities.

Several City Councilmembers commented that when staff evaluates the hotel/conference center proposals, the cultural/educational use should not be one of the criteria used for selecting a hotel developer. As discussed above, one of the advantages of bidding the sites and uses separately is that it gives the City Council time to develop goals and priorities and allows the Council to direct the type of cultural/educational use on the site (rather than the hotel developer).

REQUESTS FOR QUALIFICATIONS (RFQ)/REQUESTS FOR PROPOSALS (RFP)

At the study session, staff also recommended proceeding with the RFQ/RFP process rather than just an RFP or sole sourcing the site to a developer. The RFQ process will require developers to describe their development team and past development experiences; describe their ability to obtain financing and to prepare a preliminary development plan for the site. Once the RFQ is submitted, staff and consultants will evaluate the developer's qualifications and recommend a short list of developers (two to five) to the City Council. Once the City Council has selected the short list, developers would be invited to submit an RFP.

DEVELOPMENT CONDITIONS AND KEY BUSINESS TERMS

A key to the success of the RFQ/RFP process and the project is the provision to the potential developer of a definition of the type of development desired by the City and the conditions under which they would be developing the project.

The RFQ would be based on the development guidelines outlined in the amended North Bayshore Precise Plan (see Exhibit B, Study Session Report), with the exception of encouraging the hotel to develop the cultural/educational use as discussed above.

One of the basic business terms is that the City will only consider a long-term ground lease for the site rather than a sale. A more detailed list of business terms would be outlined and approved by the City Council prior to the issuance of the RFP.

One City Councilmember also requested additional information on "labor neutrality" agreements. Staff and the consultants contacted the Cities of Santa Clara and Millbrae. Both Cities have incorporated labor neutrality agreements into their development agreements and leases with developers. Under the terms of these agreements, the City requires that the developer/hotel operator agree to enter into an agreement with the hotel and employees union, which, if they decide to organize employees, the hotel/conference center operator

would remain neutral and not interfere in any organizing activity. In exchange, the unions agree not to strike and/or cause any actions that will disrupt the hotel operation/business.

One of the goals of the RFQ process is to seek proposals from as broad a market as possible. According to our consultant, adding this requirement at the RFQ phase could reduce interest and responses among potential proposers. This condition could also have a financial impact because a developer might determine to offset their costs of meeting this condition. However, if the City Council would like to add this as a condition, that policy determination could be made at any time, though staff suggests that it is best dealt with as part of the RFP. Sample language to provide direction to staff to pursue this concept is outlined on Attachment B if the Council wishes to provide direction at this time to incorporate such a condition.

CULTURAL AND EDUCATIONAL USE

One of the challenges for marketing the cultural/educational portion of the site is that the goals and priorities have not been as thoroughly defined as the hotel/conference center. Staff is proposing that staff work with Sedway Group to develop a work plan and schedule to define the desired cultural/educational uses for the remainder of the site.

TIMING

During the November 14 study session, staff indicated that they would be returning to the City Council in March 2001 seeking authorization to issue the RFQ. One of the concerns expressed by the City Council was the timing for marketing the site and if it could be done sooner. Staff and the Sedway Group evaluated the proposed schedule and concluded that the time line could be modified and the issuance of the RFQ could be moved up by approximately one month, to February 2001. This modification would not affect the development of a work plan and schedule for the cultural/educational use. Staff proposes to return to the City Council in March/April 2000 with this plan.

One issue that the City will need to address prior to the issuance of the RFQ for the hotel/conference center use is the permanent location of Fire Station 5. In the process of evaluating a permanent location for Fire Station 5, one potential site identified was the Charleston East site. It is planned to come before the City Council in a separate study session in early 2001.

ALTERNATIVES

- The City Council may choose to eliminate the RFQ process and issue an RFP for the hotel/conference center use of the site.

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- The Council could provide direction to the staff to incorporate additional business terms in either the RFQ and/or RFP such as one dealing the "labor neutrality."

PUBLIC NOTICING

Public noticing was provided through the standard agenda posting.

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Approved by:

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City Manager

EMB/5/CAM
815-12-12-00M-1^

Attachments

cc: TPM, RPM, AFASD, ACA—Quinn

**CITY OF MOUNTAIN VIEW
MEMORANDUM**

DATE: November 6, 2000

TO: City Council

FROM: Ellis M. Berns, Economic Development Manager
Elaine Costello, Community Development Director

SUBJECT: STUDY SESSION—NOVEMBER 14, 2000—CHARLESTON EAST SITE

INTRODUCTION

A long-standing goal of the City is to have a hotel/conference center to help meet a number of currently underserved needs for quality hotel and meeting space.

On June 27, 2000, the City Council approved an amendment to the North Bayshore Precise Plan to allow a hotel land use on the City-owned 18.6-acre Charleston East site (see Exhibit A), in addition to the previously allowed cultural/educational use. The hotel land use would also include a significant amount of meeting and banquet space.

The purpose of this Study Session is to discuss with the City Council work the staff has been undertaking regarding the marketing of this property, the RFQ/RFP process, key business terms, defining the cultural/educational use, budget and project timing. Staff wanted to brief the Council on this topic prior to staff bringing this project to the City Council in December, seeking authorization to proceed with the development of the RFQ/RFP and requesting an appropriation of funds for consultant assistance.

MARKET APPROACHES

The amended North Bayshore Precise Plan reserves approximately 12.4 acres of land for a hotel/conference center and approximately 4.2 acres of the site for cultural/educational use. There is a remainder of two-acres that provides flexibility to respond to specific design proposals for either use. For example, up to 50,000 square feet of building area may be added as a bonus incentive for an exceptional hotel project. Since these are two distinctly different uses proposed for the site, the City needed to determine the best approach for marketing the property.

Sedway Group was hired to assist the City in developing a market strategy for the Charleston East site. One of the first questions identified was whether the hotel/conference center and cultural/educational uses should be marketed simultaneously or separately. Staff and the consultants concluded that the hotel/conference center site should be marketed separately first and then the cultural/educational portion of the site for the following reasons:

1. The City would be able to market the property expeditiously and take advantage of the current strong real estate market and interest in a hotel/conference center.
2. One of the challenges in marketing the site is that the cultural/educational uses have not been as thoroughly analyzed as the hotel/conference center. Another advantage of marketing the hotel/conference center first is that it allows time for the City to define and set the goals and priorities for the cultural/educational portion of the site without delaying the marketing of the hotel. Later in this memo, staff outlines the timing for this process of defining the cultural/educational uses.
3. Reduces financing risks for both projects if the two sites are not linked. An example of this financing risk is that the cultural/educational facility would likely need to engage in a lengthy capital campaign before being able to break ground. If potential fundraising goals are not achieved or planned, this could result in a delay of the hotel/conference center or cause the entire plan to fail. Or the reverse could occur, the hotel could have difficulty with financing, then the cultural/educational use would be delayed or not get built. Hotel projects are difficult to finance, even under optimal circumstances.
4. This process would likely get the highest number of responses from hotel developer/users because it would be less complicated than trying to design and finance a joint project.
5. This option increases the likelihood of getting both the best hotel project and the best cultural/educational project. When a team which includes both uses is solicited, often one part of the team is stronger than the other. The City is put in the undesirable position of accepting or rejecting the entire team.

Although the sites would be marketed separately, under the Precise Plan it requires that both uses are integrated. As the hotel/conference center proceeds, it will be required to master plan the site and show how the two uses would be physically integrated. This process has worked very successfully on other large projects in the City where they

have been developed in phases (The Crossings) and by different developers (Whisman Station).

COMBINED SOLICITATION ALTERNATIVE

The staff and the consultants examined the option of combining the solicitation of the hotel and the cultural/educational facility. Staff prefers the separate marketing of both uses for the reasons described above. The major advantage of the combined solicitation is that there is only one marketing process. At first, staff felt one solicitation could create a more fully integrated project since there would be one development team. Working on the issue, staff believes the requirement of a master plan can assure the two projects are physically integrated though they are developed by different developers at different times. The delay for the hotel marketing, the financing and timing complications for both uses and the risk of getting fewer and poorer offers were significant disadvantages of this option.

REQUEST FOR QUALIFICATIONS (RFQ)/REQUESTS FOR PROPOSALS (RFP) PROCESS

Staff is proposing that the City proceed with a Request for Qualifications (RFQ)/Request for Proposal (RFP) process for soliciting development proposals for the site. The RFQ would be prepared and widely distributed, including to all developers who have expressed interest in the site. The RFQ asks developers provide information regarding their specific qualifications so the City can evaluate their ability to develop and complete a high-quality project. The type of information that would be requested in an RFQ would include: a description of the development team; their past development experiences; demonstrated ability to obtain financing; and the preparation of a preliminary development concept.

Once the RFQ is submitted, staff and consultants would evaluate the developer qualifications and then recommend to the City Council a short list of two to five preferred developers. Once the Council has selected this short list, the developers would be invited to submit a complete Request for Proposal (RFP).

The RFP asks the developers to submit more detailed information about their proposal they submitted as part of the RFQ package and would include:

- Detailed development concept showing site plans, layout of proposed project components, massing of buildings, circulation and access patterns and more

detailed information on how the site would be integrated with the cultural educational use;

- Development schedule;
- Financing plans and operating pro forma;
- Basic business terms, including rents, rent adjustments, assignment provisions, etc.

This information would then be used to evaluate the proposals and to select a developer and the type of hotel/conference center to be constructed on the site.

Throughout this RFQ/RFP process, the City Council would be kept advised and would approve both the short lists of potential developers and the final hotel conference center developer.

The alternative to the RFQ/RFP approach is to go directly to the RFP process. This might save the City some time initially, however, it would require a significant amount of staff and consultant time to evaluate a large number of detailed proposals that could be submitted by developers who have neither the experience or financial qualifications to complete a project.

DEVELOPMENT CONDITIONS AND KEY BUSINESS TERMS

A key to the success of the RFQ/RFP process and the project is the provision to the potential developers of a definition of the type of development desired by the City and the conditions under which they would be developing the project. The RFQ/RFP would be based on the development guidelines outlined in the amended North Bayshore Precise Plan (see Exhibit B).

A major business term in preparing these materials is clarifying whether this is a land lease or a sale. It has been City practice to retain ownership of City properties of this size and in this area. It is recommended that developers be advised that the City is only interested in entering into a long-term ground lease. A ground lease provides long-term revenue and more control of the site. Other basic business terms such as rent, renewal options, assignment provisions, etc., would be conditions that would be outlined in the RFQ and RFP and that the City Council would approve these prior to the issuance of the RFQ and RFP.

One question that the City will need to address prior to the issuance of the RFQ/RFP is the permanent location of Fire Station 5. In the process of evaluating a permanent location for Fire Station 5, one potential site identified was the Charleston East site. The issue of the location for the permanent Fire Station 5 will come before the City Council in a separate Study Session in early 2001, prior to the issuance of the RFQ/RFP.

If there are other major business terms or special conditions that the City Council would like incorporated into the RFQ/RFP process, it would be helpful to identify them at the November 14 Study Session. Staff could then bring information back to the City Council in March 2001, when staff seeks authorization to proceed to solicit RFQs.

CULTURAL AND EDUCATIONAL USE

During the past several months, several cultural, nonprofit organizations and private schools have inquired about the site and its potential uses. As stated earlier in this report, one of the challenges for marketing the site is that the City's goals and priorities for the cultural/educational uses have not been as thoroughly defined as the hotel/conference center. Staff proposes that prior to the issuance of the RFQ for the hotel, staff return to the City Council with a specific work plan and schedule for establishing a process for defining desired "cultural/educational" uses for the remainder of the site.

BUDGET

Based on the City's previous experience with development and negotiation of long-term ground leases, outside consultants will be needed to provide specific expertise and support throughout the process. Since the site is located in the North Bayshore Area, funding for this effort would be available from the Shoreline Community Fund.

It is proposed that the appropriation of funds be done in two phases. The first phase would be to hire economic and marketing consultants to assist with the preparation, solicitation and evaluation of the RFQ/RFP and to assist staff in developing and implementing a work plan to establish priorities for the cultural/educational use. Funds would also be used to hire real estate consultants to establish the fair-market value of the property and outside legal counsel to assist with the development of preliminary business terms and legal agreements. It is estimated that \$100,000 to \$125,000 would need to be appropriated for the first phase of the project.

The second phase of funding would be used for the retention of economic consultants and legal counsel to assist with the negotiations and development of the business terms

and final legal documents (disposition and development agreements and ground lease). Given the current timing of this project, the appropriation of these funds can be done as part of the annual Capital Improvement Project (CIP) budget for this next fiscal year.

TIME LINE AND NEXT STEPS

Based on the above information, staff is proposing the following time line and next steps:

November 14—City Council Study Session.

December 12—City Council authorization to staff to begin to develop the documents RFQ/RFP process and appropriate funds for consultants to assist with this process.

December-February—Hire consultants to develop RFQ/RFP; develop work plan and time line for cultural/educational use definition; and Study Session on location of Fire Station 5.

March 2001—City Council authorizes solicitation of RFQ process for the hotel and begins to seek proposals. Council considers work plan and time frame for cultural/educational uses.

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EMB/3/CDD
815-11-03-00M^

Attachments

cc: ACM, PWD, TPA, RPM, PP, FASD, AFASD, ACA—Quinn

**OPTIONAL LANGUAGE
CITY COUNCIL LABOR NEUTRALITY POLICY POSITION**

The selected hotel operator will agree to take a neutral position in respect to hotel employees' determination whether or not to form or select any labor organization for the purpose of collective bargaining in order to achieve an agreement to avoid picketing and/or any other economic action against the hotel operator.

EMB/9/CDD
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